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August 1, 2008

Michael Simendich, Park Superintendent
Moabi Regional Park
Park Moabi Road
Needles, CA 92363

SUBJECT: CASH CONTROL AUDIT

Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing and the Standard Practice for Cash and Internal Controls, we have completed the cash control audit of Moabi Regional Park. Our audit was conducted in accordance with the standards developed by the International Standards for the Professional Practice of Internal Auditing.

Background

Moabi Regional Park is one of nine parks managed by the County's Regional Parks Administration. The Park has three authorized cash funds, which total \$3,600. The various recreational activities offered within the park are the primary resources for cash in-flows.

Scope of Audit

Our objective was to determine whether the cash handling controls practiced were effective. Specifically, we determined whether:

- Cash assets were properly safeguarded.
- Cash deposits were made on a timely basis.
- Cash funds were managed in accordance with the County's Internal Control and Cash Manual.

We accomplished our objectives by performing the following audit procedures:

- We performed surprise cash counts of all the authorized cash funds and undeposited cash sales.
- We reviewed cash deposits for the period of July 1, 2006 through December 31, 2006.
- We interviewed Park personnel regarding cash fund management.
- We inquired of management regarding the communication of policies and procedures to the staff members.

A draft report was sent to the Department and was discussed with management on June 4, 2008. The department's responses to our recommendations are included in this report.

Overall Conclusion

We have concluded that the cash handling controls at Moabi Regional Park need to be improved to better safeguard cash assets. The improvements needed were specially related to:

- Overall cash control safeguards
- Management of authorized cash funds
- Supervisory oversight procedures
- Bank deposits

Findings and Recommendations

The specific policies, procedures, and practices that need improvement are discussed below.

Audit Finding #1 Cash handling controls, as they relate to the staff performing their assigned job functions, were determined to be inadequate.

In order to have a strong internal control environment, management must establish and communicate the necessary policies and procedures so that personnel can effectively perform their job duties.

Our audit disclosed that the Park's operating personnel did not practice the appropriate controls when they were performing their respective job functions. The following internal control deficiencies were noted:

- The instruction materials used to specifically train the cashiers were outdated; the cash manual used for training was drafted in 2002.
- Cashiers did not restrictively endorse 2 checks received as payment for park activities
- Cashiers did not count their cash drawers in the presence of a supervisor at their end of their shifts.
- Cashiers were not properly completing their count slips (e.g., totaling the cash received).
- There was no key to lock the cash register drawer when the cashier was on break or lunch.

The cash control inadequacies resulted from management not maintaining a copy of the County's Internal Control and Cash Manual. Therefore, the staff neither has access to nor is aware of the appropriate controls to adhere to when performing their respective job functions.

Recommendation

To strengthen cash handling controls, we recommend that management maintain the current version of the County's Internal Control and Cash Manual at the Park's location. In doing this, management will then be able to conduct routine training to properly communicate the necessary policies and procedures to assist the Park's personnel in effectively performing their job duties.

Management's Response:

- The instruction materials used to specifically train the cashiers were outdated; the cash manual used for training was drafted in 2002.
Park management has taken the Internal Controls and Cash Manual class conducted by your office. Park staff went through this class conducted by our Regional Park Admin on April 9, 2008. Sign in sheets are available upon request. The "Internal Controls and Cash Manual" is now available online. Since we are not on the county internet connection, we have printed the online manual for our records at the park and will update it periodically. We confirmed with you that there have not been any updates to this manual since January 2008.
- Cashiers were not restrictively endorse 2 checks received as payment for park activities.
It has always been Moabi's policy to stamp each check with the restrictive endorsement stamp before placing it in the cashier's cash register. Each register station has a restrictive endorsement stamp next to it. We safeguard our check endorsement process by verifying that all checks have the restrictive endorsement stamped prior to the bank deposit. We respectfully request the removal of this finding.

- Cashiers did not count their drawers in the presence of a supervisor at their end of their shifts.
We operate a 1,100 acre park with 1-2 supervisors per day. The supervisors are dealing with various situations throughout the day. Supervisors make every effort to be available at the end of each cashiers shift. At times it is not practical due to unforeseen circumstances. If this occurs, cashiers count, then seal the count slip envelope prior to dropping the partial. Cashiers log their drop on the back of the daily revenue sheet. The supervisor counts and verifies the envelope at a later time.
- Cashiers were not properly completing their count slips (e.g., totaling the cash received).

Based upon our phone conversation on 5/19/08, your reference to "count slips" referred to the "daily drop log" on the back of the daily report. We use that log to document the cashier deposits (drops) throughout the day. We define count slips as the drop envelope that has the cash denomination breakdown listed on it. At the time of this audit, Cashiers totaled each "count slip envelope" and then logged the total of cash, checks and credit cards separately on the back of the daily revenue report. Prior to this audit, we kept these envelopes until the weekly revenue report was prepared and verified, and then we disposed of them. We are now stapling these "count slips" envelopes to each daily report after the money is verified and deposited. We respectfully request the removal of this finding.

- There was no key to lock the cash register drawer when the cashier was on break or lunch.
The keys have been available for use for several years. Cashiers are required to lock up their drawers when they are on break or lunch. However during this audit some cashiers were noticed not locking their drawers. We respectfully request the removal of this finding.

Auditor's Response

Management's responses addresses actions taken to correct the deficiencies noted in the audit finding. However, we have considered management's request to remove portions of this audit finding and concluded that the audit finding will remain as stated.

Audit Finding #2 The cash handling controls for safeguarding of the Change Fund were not adequate.

Strong cash handling controls must be practiced to effectively safeguard cash assets.

The Park was not in compliance with the Internal Control and Cash Manual when practicing cash handling controls for the safeguarding of the Change Fund. Several discrepancies were discovered, which included the following:

- The supervisors performing the close out procedures for the cashiering systems failed to properly complete and sign-off on the Daily Revenue Report forms.
- The supervisors were not approving voided transactions at the time of occurrence.
- The Fund Custodian did not perform frequent cash counts for the Change Fund.
- The combination to the safe was not changed when staffing changes occurred.
- Supervisors were not accurately reconciling the total cash receipts being deposited with the total cash receipts indicated on the Z-Tape from the register.

The cause of these control inadequacies is the failure of the managerial staff establishing an internal control structure that clearly defines the proper cash handling procedures to effectively safeguard cash assets. Management has not implemented and enforced any departmental policies and procedures as they relate to cash handling controls. If management does not establish and enforce the appropriate controls to effectively safeguard the Change Fund, then the Park's cash assets become more susceptible to theft, fraud, and embezzlement.

Recommendation

We recommend that management immediately establish, using the County's Internal Control and Cash Manual as a basis, the necessary cash handling controls to effectively safeguard the Park's Change Fund. Once these controls are placed in operation, management must continuously monitor these controls to ensure that they are being carried out as planned. The resulting benefit will be that the cash handling process will become more efficient and the risk of the misappropriation of cash assets will be significantly reduced.

Management's Response:

- The supervisors performing the close out procedures for the cashiering systems failed to properly complete and sign-off on the Daily Revenue Report forms.
Based upon our phone conversation, this referenced one daily report on 5/15/07, register 1, where a supervisor did not separate the cash, checks and credit cards on the front of the daily report (note it was separated out on the "daily count log" on the back of the form). Also referenced was on 5/15/07 Register 2, when a supervisor did not sign the daily report they completed. It is Moabi's policy for the cash/ checks / credit cards to be listed separately on the daily revenue report as well as when the cashiers log their drops. It is also the policy for staff to sign the "prepared by" on the daily revenue report when they complete the report.

- The supervisors were not approving voided transactions at the time of occurrence.
We work at a 1,100 acre park and it is not always possible to have the supervisor return to the office within a few minutes to complete a void. Most voids are transactions rung into the register in error, where no money was collected yet. For customer service, we ask that the cashier close out the transaction to be voided, write void on the receipt and radio for a supervisor to void the receipt. Then Re-ring the correct transaction so the customer does not have to wait. Based upon our phone conversation you made a reference that there could be the possibility of an employee ringing up a transaction, pocketing the money and not issuing a receipt to the customer. The following are precautions we already have in place: Our collection stations (gatehouse) have signs which state if a customer does not receive a receipt for paid admission today, please see the park superintendent at the park office or call 909 387-2340. Each vehicle in the park must have a receipt in their vehicle front window to verify payment. We have rangers that patrol and verify payment for all vehicles in the park. We also look at the register z tape and make sure that all voids are accounted for. We respectfully request the removal of this finding.
- The Fund Custodian did not perform frequent cash counts for the Change Fund.
Tamara Perez, Fund Custodian counts this fund at least once per week. There was not a history documentation of the counts at the time of this audit (May 2007). There was however, an initialed calculator cash count slip in the bag with the cash. For several months now we have been using a count history verification form which documents the counts and reconciliations. Tamara Perez is the fund custodian and Michael Simendich, Park Superintendent counts this fund monthly.
- The combination to the safe was not changed when staffing changes occurred.
County Policy is to change the safe combination once/year or whenever an employee leaves who had the combination. Western Lock and Safe changed the combination in October 2007. They also changed the combination on May 20, 2008, because Dan Beasley just retired. We have requested records from our vendor to verify dates when the combination had been changed. We respectfully request the removal of this finding.
- Supervisors were not accurately reconciling the total cash receipts being deposited with the total cash receipts indicated on the Z-Tape from the register.
Prior to this audit we did not always explain all of the reconciled items on each individual daily revenue report; however, we did list and explain all reconcile items on the weekly summary report. We verify that all reconcile items are accounted for by comparing each line item with the weekly register z tapes. Moabi's weekly report spreadsheet has a section that compares

each line item to the z tapes. We now are listing all reconciled information on the daily report as well as the weekly summary report.

Auditor's Response

Management's responses addresses actions taken to correct the deficiencies noted in the audit finding. We also suggested that management should assign a staff member with the responsibilities of voiding transactions on a given day. Nonetheless, we concluded that the audit finding will remain as stated.

Audit Finding #3 Deposits are not being performed in a timely manner.

In order to effectively safeguard cash assets and comply with guidelines of the County's Internal Control and Cash Manual, cash in excess of \$1,000 must be deposited by the next business day.

The Park was depositing the cash from the daily sales activity 3 times per week. The Park scheduled the deposits to be transported, by the armored truck company, to the bank on a Monday, Friday, and Saturday because of the increased cost the Park would incur if these services were to be rendered on a daily basis. Maintaining large amounts of cash on the Park's premises significantly increases the risk of misappropriating cash assets. In addition, this demonstrates the lack of adequately safeguarding the cash generated from the Park's sales activities.

Recommendation

We recommend the Park should ensure that the cash generated from the daily sales activity is deposited by the next business day. Therefore, management should have the armored truck company transport the cash deposits on a daily basis. Implementing this function would serve to strengthen cash controls, while reducing the risk of theft as it relates to cash assets.

Management's Response:

We have Loomis Transport pick ups 3X per week. **Please note most of our revenue is in Credit cards.** We have a pick up on Friday (deposit is for Monday-Thursday's cash revenue); Saturday (deposit is Friday's cash revenue); Monday (deposit is for Saturday and Sunday's cash revenue).

Auditor's Response

The average cash revenue generated during a week of operations warrants an increase of armored truck services to 5 times per week.

Audit Finding #4 **Management is not adhering to the guidelines for properly managing the Petty Cash Fund.**

The guidelines governing the proper use of authorized cash funds must be continuously practiced to prevent any form of mismanagement.

The department was not adhering to the guidelines governing the maintenance and reconciliation of the petty cash fund. The following conditions were noted:

- People other than the fund custodian disbursed petty cash funds.
- Reconciliations were not performed on a monthly basis by someone other than the fund custodian.
- Employees receiving cash advances were not signing the petty cash voucher.

Management is not aware of the petty cash fund controls outlined in the Internal Controls and Cash Manual. Therefore, management is not routinely practicing the controls that would decrease the risk of misappropriating the petty cash fund. Without effectively practicing the internal controls as stated in the Internal Controls and Cash Manual the risk of petty cash funds being misappropriated significantly increases.

Recommendation

We recommend the park obtain a copy of the updated Internal Controls and Cash Manual (8/05) and follow the petty cash fund guidelines. Furthermore, the fund custodian needs to ensure that employees receiving cash advances are signing the petty cash voucher, the fund custodian should be approving the disbursement of petty cash funds, and reconciliations should be performed on a monthly basis by someone other than the fund custodian. Management would minimize the risk of misappropriation by continuously practicing and monitoring the cash management controls.

Management's Response:

- Reconciliations were not performed on a monthly basis by someone other than the fund custodian.

Prior to this audit Michael Simendich, Park Superintendent reconciled/counted this fund at least once per month. The counts did not have a history documentation at that time. There was however, an updated Petty cash log sheet included in with the cash on hand. This log documented cash on hand and the expenditures to date. For several months now we have been using a count history verification form which documents the counts and reconciliations. Tamara Perez is the fund custodian and Michael Simendich reconciles this fund monthly. We respectfully request the removal of this finding.

- Employees receiving cash advances were not signing the petty cash voucher. Moabi's policy is that these vouchers are to be signed by the person who approved the cash advance disbursement and the person who received the cash advance disbursement. It was noted during this audit there was a couple of times when only one signature was on the voucher.

Auditor's Response

Management's responses addresses actions taken to correct the deficiencies noted in the audit finding. However, we have considered management's request to remove portions of this audit finding and concluded that the audit finding will remain as stated.

Audit Finding #5 **The Park's management of the Cash Difference Fund needs to be improved.**

The County's Internal Control and Cash Manual, Chapter 4, states cash funds must be reconciled at least once a month by someone other than the fund custodian who holds a higher-ranking job code.

Management did not perform monthly reconciliations of the Cash Difference Fund. Management is not aware of the general guidelines stipulated in the Internal Control and Cash Manual for effectively managing the Cash Difference Fund. The Cash Difference Fund will not serve its purpose if management continues to not adhere to the guidelines of the Internal Control and Cash Manual.

Recommendation

The Park Superintendent should reconcile the Cash Difference Fund at least once a month to ensure the cash funds are properly used by operating personnel.

Management's Response:

Prior to this audit Michael Simendich, Park Superintendent reconciled/counted this fund at least once per month. There was not a history documentation of the counts at the time of this audit (May 2007). There was however, an updated Cash Differential log sheet, documenting cash on hand and when the cash differential fund was used and the reason why. For several months now we have been using a count history verification form which documents the counts and reconciliations. Tamara Perez is the fund custodian and Michael Simendich reconciles this fund monthly. We respectfully request the removal of this finding.

Auditor's Response

Management's responses addresses actions taken to correct the deficiencies noted in the audit finding. However, we have considered management's request to remove portions of this audit finding and concluded that the audit finding will remain as stated.

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August 1, 2008
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We would like to express our appreciation to the staff at the Regional Parks Department for their support and cooperation during the audit.
Respectfully submitted,

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Auditor/Controller-Recorder

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